POLICY BRIEF

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Immediate Socio-economic Priorities Facing the Next Government of Bangladesh

Mohammad Abdur Razzaque and Asaf Ibne Salim[*]

Abstract: The next government of Bangladesh is set to inherit an economy operating under tight macroeconomic constraints, marked by elevated inflation, financial sector fragility, pressure on external buffers, rising debt-servicing costs, and severely reduced policy space. Slowing growth, declining employment, and weak private investment make stabilisation policies difficult yet both urgent and unavoidable. Bangladesh's impending graduation from the group of Least Developed Countries in November 2026, alongside an increasingly unfavourable global trading environment shaped by geopolitical fragmentation, heightens the risk of a harder and more disruptive adjustment at a critical juncture. This policy brief argues that the incoming administration's performance will depend less on long-term agenda setting than on how effectively it manages a set of immediate and binding socio-economic priorities. Drawing on recent evidence, it identifies twelve priorities organised around three interlinked pillars: restoring macroeconomic stability; addressing urgent transformation and competitiveness constraints; and strengthening fiscal space, inclusion, and resilience. The brief emphasises that early, credible action is essential to stabilise expectations, protect vulnerable households, restore confidence among investors and partners, and create the conditions for deeper structural reforms. Delayed or partial responses risk imposing higher economic and social costs later in the government's term.

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[*] The authors are, respectively, Chairman, and Senior Research Associate at Research and Policy Integration for Development (RAPID). Any limitations and/or views expressed in this paper are authors' own. For correspondence, please email: m.a.razzaque@gmail.com.

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I. Background

Bangladesh is entering a critical political transition, with the next general election scheduled for 12 February 2026. When the student-led mass movement culminated in a major political upheaval in early August 2024, leading to the collapse of the former regime, the economy was already experiencing a deep and protracted macroeconomic crisis. Successive external shocks, including the COVID-19 pandemic and the Russia–Ukraine conflict, had severely disrupted global supply chains and triggered sharp increases in energy and food prices, placing intense pressure on both external and domestic balances. In the absence of sufficiently timely and effective domestic policy adjustment, these shocks for Bangladesh translated into rapidly declining foreign exchange reserves, elevated inflation, and widening balance-of-payments pressures, eventually prompting the country to enter into an IMF-supported adjustment programme in January 2023.

The interim government, inheriting an economy under severe strain, has undertaken a range of stabilisation efforts. While these measures have yielded some improvement, outcomes remain mixed, leaving several policy mechanisms and difficult reform measures to be carried forward by the next elected government. The immediate challenge confronting the incoming administration is therefore best understood not as a single crisis amenable to isolated policy correction, but as a convergence of stresses across macroeconomic, fiscal, and social domains. Bangladesh's impending graduation from the group of LDCs, scheduled for 24 November 2026, adds a further layer of complexity, raising concerns about reduced external competitiveness following the loss of LDC-related trade preferences and policy space, at a time when adjustment capacity is already constrained and external conditions remain highly unsettled.

The domestic pressures are unfolding against an increasingly unfavourable external environment marked by reduced availability of concessional resources and rising uncertainty in global trade and geopolitical fragmentation. For Bangladesh, what makes the current juncture particularly consequential is the interaction between these short-term challenges and long-standing structural constraints, including governance and institutional frictions, persistent weaknesses in the investment climate, and limited export diversification.

Within this context, the next government will be tested by its ability to operate within a compressed decision horizon, where early choices are likely to shape economic and social outcomes over the entire term. Against this backdrop, this policy brief sets out twelve immediate socio-economic priorities for the next government, examined through three interlinked lenses: restoring macroeconomic stability, addressing urgent constraints related to structural transformation and competitiveness, and advancing critical measures for inclusive development and resilience.

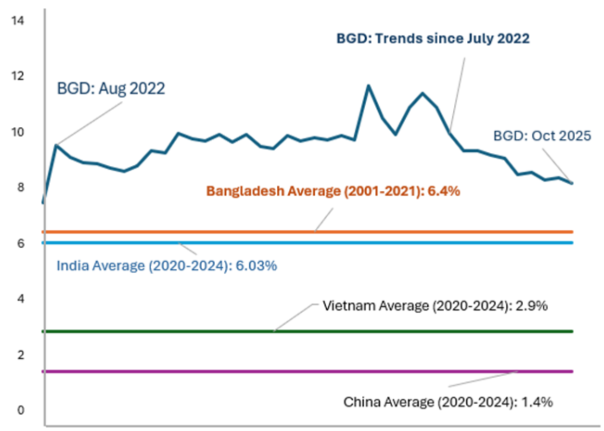
II. Restoring Macroeconomic Stability

Restoring macroeconomic stability has become the most immediate policy imperative confronting the next government as it sets the basic conditions under which households can protect real incomes, firms can plan investment and production, and the state can make fiscal and policy choices without being forced into repeated short-term firefighting.

- **Inflation control will be critical for restoring macroeconomic stability and protecting the purchasing power of poor and vulnerable households.**

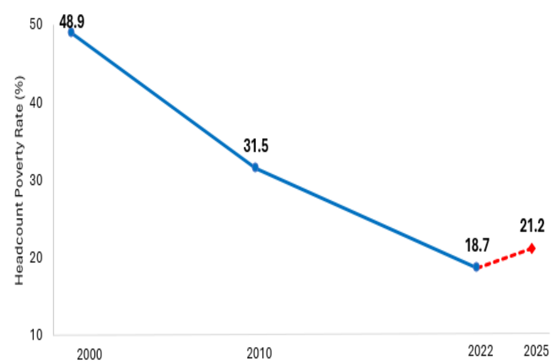
Inflation has persistently exceeded 8 per cent since 2022, remaining well above regional averages and above Bangladesh's own historical average over 2001 to 2021 (Figure 1). Between September 2022 and October 2025, the Consumer Price Index increased by approximately 36 percentage points, while the Wage Rate Index rose by only around 28 points, creating a gap between earnings and price levels that translated to households losing real income. As a result, inflation has ceased to function as a temporary macroeconomic disturbance and has instead become a central driver of reversals in poverty and vulnerability within the past three years (Figure 2).[1]

Figure 1: CPI Inflation remained elevated since 2022



Source: Bangladesh Bank and World Development Indicators

Figure 2: Headcount poverty rate in Bangladesh since 2000



Source and note: Poverty estimates for 2000–2022 are derived from HIES data. The 2025 poverty rate is a projection based on microsimulation results reported in the World Bank Poverty and Equity Assessment (2025).

[1] Recent estimates indicate the decline in purchasing power has pushed nearly nine million additional individuals into moderate poverty between 2022 and 2025 (Razzaque et al., 2024). According to the World Bank's Poverty and Equity Assessment 2025, the national poverty rate in Bangladesh is projected to rise from 18.7 per cent in 2022 to 21.2 per cent by 2025 (World Bank, 2025). Similarly, a recent survey by a private sector think tank, Power and Participatory Research Centre (PPRC) finds the poverty incidence in the country to have risen to 27.9 per cent in 2025.

Inflation control should therefore be prioritised not only as a technical macro target but also as a core instrument for protecting real incomes and preventing further welfare slippage, since the burden of price instability has tended to fall squarely on low-income and informal workers whose earnings adjust slowly, if at all, when living costs rise quickly.

- **Repairing the banking system is imperative to prevent a broader financial crisis and restore confidence in private credit and investment.**

The condition of the banking sector has emerged as a critical fault line within the broader macroeconomic landscape as reported non-performing loans increased sharply from around BDT 2.85 trillion in September 2024 to approximately BDT 6.4 trillion by September 2025. This however does not reflect a sudden deterioration in credit quality but the delayed recognition of long-standing bad loans that had been accumulated within bank balance sheets. By international comparison, the scale of the problem is particularly pronounced, with Bangladesh's NPL ratio estimated at around 35.7 per cent, far exceeding levels observed in regional peers such as Thailand, Indonesia, India, and China, and Cambodia.[2]

Without credible action to address impaired assets, strengthen supervision, and restore discipline in lending and recovery practices, the underlying stress can destabilise the wider financial sector, with private credit growth likely to remain subdued, investment decisions continuing to be deferred, and the effectiveness of both monetary and fiscal policy being constrained. Prioritising banking sector repair is thus essential not only to reduce the risk of a broader financial crisis, but also to restore investor confidence, improve the allocation of credit towards productive activities, and prevent financial fragility from becoming a persistent drag on growth and employment in the period ahead.

- **Address mounting debt pressures to prevent debt servicing from crowding out development spending.**

The accumulation of public debt has become an increasingly binding constraint on macroeconomic management. Between FY16 and FY24, external public debt expanded at an average annual rate of about 18 per cent, while domestic debt grew by roughly 15 per cent per year, resulting in a combined public debt stock equivalent to around 38.5 per cent of GDP by FY24. More concerning than the level of debt itself has been the rapid escalation of debt servicing costs, with interest payments increasing by an average of 15.7 per cent annually.. By FY25, interest payments absorbed approximately 35.7 per cent of total tax revenue and about 31 per cent of total government revenue.[3]

Addressing mounting debt pressures, including from those domestic sources in particular, should therefore be treated as a core stabilisation priority. Without early attention to containing debt

[2] The estimates are drawn from IMF Financial Soundness Indicators (2025) & Bangladesh Bank Quarterly reports.
[3] According to the World Bank-IMF Debt Sustainability Analysis (DSA), total public debt service reached about USD 26.3 billion, equivalent to 5.8 per cent of GDP in FY24, while overall public spending remains constrained at around 13–14 per cent of GDP, implying that a very large share of available fiscal resources is now being devoted to servicing existing obligations.

servicing costs, fiscal policy is likely to remain increasingly preoccupied with meeting interest obligations rather than financing health, education, infrastructure, and social protection. Prioritising debt management.

- **Continue to strengthen external buffers to build reserves and restore confidence in the exchange rate framework.**

While recent adjustments undertaken by the central bank under the interim government towards a more market-oriented exchange rate regime and a shift from net foreign exchange sales to net purchases have helped arrest reserve depletion and have started a process of rebuilding, buffers remain thin relative to need of the economy and any emerging risks. Pressures on reserves are expected to persist in the near term, reflecting a combination of rising external debt service obligations, energy imports in a volatile global price environment, and the likelihood that a post-election economic recovery will revive import demand after a prolonged period of compression.

Strengthening external buffers should therefore remain a priority, not only to manage near-term balance of payments risks but also to restore confidence in the exchange rate framework, since predictable and credible foreign exchange management is essential for anchoring inflation expectations, supporting trade and investment decisions, and reducing the likelihood that external pressures translate into renewed macroeconomic instability.

III. Supporting Critical Transformation and Competitiveness Needs

Beyond the immediate task of macroeconomic stabilisation, supporting transformation and competitive needs will be among topmost priorities for the new government.

- **Decide on seeking an extension of LDC graduation: secure additional time or prepare for a hard landing**

Given the impending LDC graduation, scheduled for 24 November 2026, an immediate strategic decision about whether to request for an extension of the timeline must be taken as soon as possible. The current window for seeking a structured delay through the standard UN Committee for Development Policy review process appears time-bound, with the end-February 2026 CDP review being presented as the last clear opportunity for pursuing a recommendation for deferral within the normal process. If that window is missed, additional time would still be theoretically possible through the crisis or emergency response provisions. The urgency around this decision is heightened by the limited readiness reported by stakeholders in relation to the implementation of the Smooth Transition Strategy. Nearly three-quarters of exports currently benefit from LDC-specific duty-free market access, and while some preferential schemes may continue for a limited period after graduation, the risk of preference erosion remains a central competitiveness concern, particularly given that the loss of export subsidies and tighter intellectual property obligations are expected to raise adjustment pressures for already margin-thin sectors.

Prioritisation is therefore warranted not only in deciding whether to pursue an extension or prepare for a harder adjustment path, but also in ensuring that whichever route is chosen is matched with rapid implementation of transition measures, including steps linked to securing post-graduation market access arrangements such as EU GSP+, advancing trade agreements where feasible, and strengthening collaboration with development partners for LDC-related support mechanisms, so that graduation does not translate into a sudden and avoidable loss of competitiveness.

- **Ensure energy security for boosting industrial growth and economic activities, while accelerating renewable energy integration.**

Energy security has become a binding constraint on industrial competitiveness and broader economic activity, with recent evidence suggesting that peak-time electricity shortfalls have repeatedly crossed 1,500 to 2,000 MW, reflecting acute fuel constraints, low plant utilisation, and systemic inefficiencies that have limited the reliability of supply for firms and households. At the same time, declining domestic gas production has increased reliance on expensive imported LNG which has raised foreign exchange costs and exposed the power system to global price movements.[4] In cross-country perspective, per capita energy consumption in Bangladesh remains among the lowest globally, reinforcing the concern that the current energy gap risks constraining future productivity growth and the scale of industrial expansion that would be required to sustain economic growth.

Energy security should therefore be prioritised as a matter of fundamental productive capacity requirement. A more credible direction would involve pragmatic integration of renewables into supply sources so that dependence on volatile imported fuels can be reduced over time while at the same time the economy can also move towards green transition, which is becoming increasingly more important for the export industry's environmental compliance in the wake of introduction of such schemes as the EU's Carbon Border Adjustment Mechanism (CBAM).

- **Strengthening state capacity to manage geopolitical risks is indispensable for economic policymaking.**

Geopolitical developments are increasingly shaping Bangladesh's economic prospects, as trade, investment, and technology flows have become more explicitly conditioned by strategic considerations beyond market fundamentals. Export market access, sourcing of intermediates, foreign direct investment, and technology transfer are now more sensitive to geopolitical alignments, while macroeconomic vulnerabilities have been amplified by externally driven shocks, including volatility in global food and energy prices and tighter international financial conditions linked to geopolitical fragmentation.

Geopolitical risk remains weakly integrated into economic policymaking, with limited institutional capacity to systematically assess how global political developments transmit into domestic economic risks and opportunities across trade strategy, industrial policy, energy planning, and infrastructure investment. With LDC graduation and a fragmented global order, the next government must urgently institutionalise geopolitical risk management within economic policymaking. Strengthening state capacity in this area should therefore be treated as an enabling condition for effective economic

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[4] LNG imports are now estimated to account for around one-quarter of total gas supply.

management, requiring clearer national strategies, and greater diplomatic and analytical capability to anticipate shocks and manage trade-offs.

- **Data integrity must be restored to underpin credible policymaking, accountability, and good governance.**

Data integrity has become a significant constraint on credible policymaking and public accountability, as persistent questions over the reliability and consistency of official statistics have weakened confidence in headline indicators on GDP, employment, poverty, and trade. Weak data governance, reflected in limited transparency, poor documentation, and unclear lines of accountability across data-producing agencies such as Bangladesh Bureau of Statistics (BBS), has compounded these concerns, while political and institutional pressures have increasingly blurred the boundary between statistical measurement and narrative management.

Restoring data integrity is thus a core governance priority since the absence of trusted data weakens policy design, delays corrective action, and undermines accountability to citizens and development partners alike. Concrete, actionable steps for strengthening the BBS have already been set out by a taskforce, with attention given to institutional independence, transparency, and analytical capability across the wider statistical system. Implementation of these recommendations is necessary if official data is to regain credibility and function again as a common reference point for economic management, social policy targeting, and informed public debate.

IV. Strengthening Fiscal Space and Inclusive Development

The durability of development gains ultimately depends on whether growth is translated into broad-based jobs, stronger human capital, and a fiscal system with enough space to protect households during shocks and support the required social and physical infrastructural development.

- **The next five-year development strategy must be centred on employment generation, supported by fiscal commitments and credible implementation plans.**

Employment creation has weakened markedly in recent years.[5] One of the clearest indications of the disconnect between output growth and employment has been evident in the manufacturing sector, where employment fell from around 9.5 million in 2013 to about 8.1 million by 2024, even as manufacturing value added grew at 10 per cent per year. The manufacturing sector also has experienced a pronounced decline in women's employment across most subsectors, contributing to a wider defeminisation of the industrial workforce. Services have not expanded rapidly enough to offset job losses elsewhere while agriculture continues to absorb a large share of workers despite a declining output contribution.

[5] BBS Labor Force Surveys indicate total employment declined by nearly two million during 2023–2024, with a further contraction of around 0.8 million expected in 2025, while labour force participation fell from about 73.5 million in 2023 to 71.7 million in 2024, a decline driven largely by women exiting the labour market. At the same time, graduate unemployment stood at 13.5 per cent in 2024, with close to 0.9 million graduates recorded as unemployed, indicating growing difficulty in absorbing educated labour into productive work.

Employment generation should therefore be highly prioritised in the next medium-term development strategy and supported by credible implementation plans. Failure to create enough decent jobs will widen inequality further and could affect social stability.

- **Raise domestic revenue so that investment in health, education, and social protection can be increased, fiscal sustainability can be safeguarded, and development priorities, including reducing inequality, can be supported.**

Chronically weak domestic revenue mobilisation has left Bangladesh with a persistently narrow fiscal space, limiting the state's ability to sustain development spending and to use fiscal policy to moderate inequality, with the tax to GDP ratio remaining at only 6.78 per cent in FY25, far below regional peers and lower-middle-income averages. This low revenue effort has translated into one of the lowest levels of public spending globally, at around 12 to 13 per cent of GDP. Furthermore, the tax structure remains heavily reliant on indirect and trade taxes, which together account for around 65 per cent of total tax revenue, thereby constraining the scope for more progressive revenue measures at a time when income and wealth concentration is rising fast.

The most visible consequence of this constrained fiscal space has been persistent underinvestment in health, education, and social protection, with Bangladesh's public spending standing at around 0.7 per cent of GDP for health, 1.5 per cent for education, and 0.9 per cent for social protection, levels that remain far below those of comparable economies, including India and Viet Nam. Thus, stronger revenue mobilisation and more deliberate spending choices need to be treated as linked priorities rather than as separate agendas.

- **Take concrete measures to remove barriers to women's economic participation and productive employment, and to prevent violence against women.**

Women's economic participation remains constrained by a combination of labour market disadvantages, unpaid care responsibilities, and widespread insecurity. In 2024, the female labour force participation rate stood at around 38 per cent, compared with about 80 per cent for men, while employed women worked on average 17 fewer hours per week and earned roughly 41 per cent less per month than men, with hourly earnings remaining about 26 per cent lower even after accounting for hours worked (BBS, 2024; World Bank, 2025). Time-use patterns revealed by the BBS Time Use Survey 2021 point to a sharp imbalance in unpaid work, as married women spend an average of 6.11 hours per day on household chores and care responsibilities, compared with only 0.79 hours for married men. Barriers to women's participation are further reinforced by the prevalence of violence and weak reporting and support systems, which affect mobility, job retention, and willingness to engage in paid work.[6]

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[6] Evidence from Violence Against Women Survey 2024 suggests that around seven in ten ever-married women have experienced at least one form of intimate partner violence in their lifetime, with lifetime prevalence reaching 76 per cent and nearly half reporting violence in the past 12 months, while psychological violence remains the most widespread form. Adolescent girls aged 15–19 face particularly high recent exposure, and women in disaster-prone areas experience higher lifetime prevalence than those elsewhere, yet nearly two-

Removing barriers to women's economic participation should therefore be treated as both an economic and social priority, since sustained improvements in employment, productivity, and household welfare are unlikely to be realised without addressing unpaid care burdens, labour market discrimination, and the pervasive insecurity that continues to limit women's ability to participate fully and safely in economic life.

V. Concluding Remarks

The next government will not have the luxury of easing into office with broad vision statements or deferred reform agendas. Its first and most immediate test will be crisis management. Inflation, financial sector fragility, pressure on foreign exchange reserves, and unresolved questions surrounding LDC graduation will demand attention from the outset, leaving little room for delay or missteps. How these challenges are handled in the early months will shape macroeconomic conditions, political credibility, and reform space for the remainder of the term.

Failure to act decisively at an early stage will narrow policy space further and force more abrupt and costly corrections later, with greater social and political consequences. At the same time, it is important to recognise that structural reforms in governance, institutions, and competitiveness remain indispensable. Yet experience shows that such reforms rarely succeed in an environment of macroeconomic instability. Stabilisation is therefore not an alternative to reform, but a prerequisite for it.

The first year of the next government will thus be critical. Credible early action, grounded in realism and supported by clear policy signals, can help stabilise expectations, restore confidence among households and investors, and rebuild trust with international partners. Without such action, even well-designed longer-term reforms risk being overwhelmed by immediate economic pressures.

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Contact Us
Research and Policy Integration for Development (RAPID)
House: 18 (Flat 504), Road: 101, Gulshan 2, Dhaka-1212
Mobile: +8801711-287444, +8801754-994469
info@rapidbd.org
www.rapidbd.org